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Component Unit Financial Statements
And Report of Independent Auditors
With Supplemental Information

GRAVITY DRAINAGE DISTRICT NO. 3
OF CAMERON PARISH
Cameron, Louisiana

December 31, 2006

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date 1/9/08

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Independent Auditors' Report

GRAVITY DRAINAGE DISTRICT No. 3
OF CAMERON PARISH
Cameron, Louisiana

We have audited the accompanying financial statements of the governmental activities, and each major fund, of the Gravity Drainage District No. 3 of Cameron Parish, a component unit of the Cameron Parish Police Jury, as of December 31, 2006, and for the year then ended, which collectively comprise the basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Gravity Drainage District No. 3 of Cameron Parish's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the governmental activities, and each major fund, of the Gravity Drainage District No. 3 of Cameron Parish as of December 31, 2006, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 20, 2006, on our consideration of the Gravity Drainage District No. 3 of Cameron Parish's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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The Management's Discussion and Analysis and budgetary comparison on pages 4 through 9 and pages 20 through 21 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The other supplemental information schedules listed in the table of contents are presented for the purpose of additional analysis and are not a required part of the basic financial statements of Gravity Drainage District No. 3 of Cameron Parish. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script that reads "Stulb & Associates". The signature is written in dark ink and has a fluid, connected style.

December 20, 2007

Required Supplemental Information (Part I):
Management's Discussion and Analysis

GRAVITY DRAINAGE DISTRICT NO. 3 OF CAMERON PARISH

Management's Discussion and Analysis

As Management of the Gravity Drainage District No. 3, we offer readers of the Gravity Drainage District No. 3 financial statements this narrative overview and analysis of the financial activities of the Gravity Drainage District No. 3 as of and for the year ended December 31, 2006. We encourage readers to consider the information presented here in conjunction with the Gravity Drainage District No. 3 basic financial statements and supplementary information provided in this report in assessing the efficiency and effectiveness of our stewardship of public resources.

The Management's Discussion and Analysis (MD&A) is an element of the new reporting model adopted by the Governmental Accounting Standards Board (GASB) in Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* ("GASB No. 34") issued June 1999. Certain comparative information between the current year and the prior year is required to be presented in the MD&A.

FINANCIAL HIGHLIGHTS

- The assets of the Gravity Drainage District No. 3 exceeded its liabilities at December 31, 2006, by \$606,417 (net assets).
- The Gravity Drainage District No. 3 net assets decreased by \$180,777 as a result of this year's operations.
- Total net assets of \$606,417 are comprised of the following:
 - 1) Unrestricted net assets of \$556,521 represent the portion available to maintain the Gravity Drainage District No. 3 continuing obligations to citizens and creditors.
 - 2) The balance of \$49,896 represents the portion of net assets invested in capital assets, net of the related debt.
- At December 31, 2006, the Gravity Drainage District No. 3 governmental funds consist solely of the Gravity Drainage District No. 3 general fund. The Gravity Drainage District No. 3 governmental funds reported a total ending fund balance of \$540,948, a decrease of \$203,819 including expenditures for capital assets. The entire fund balance is unreserved and available for spending at the Gravity Drainage District No. 3 discretion.

OVERVIEW OF THE FINANCIAL STATEMENTS

Management's Discussion and Analysis is intended to serve as an introduction to the basic financial statements. In accordance with GASB No. 34, the Gravity Drainage District No. 3 basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements. This report also contains other supplementary information in addition to the basic financial statements.

Government-wide Financial Statements. The government-wide financial statements of the Gravity Drainage District No. 3 report information about the Gravity Drainage District No. 3 using accounting methods similar to those used by private sector companies. They present the financial picture of the Gravity Drainage District No. 3 from an economic resources measurement focus using the accrual basis of accounting. These statements include all assets of the Gravity Drainage District No. 3 (including capital assets) as well as all liabilities (including long-term obligations).

The *Statement of Net Assets* presents information on all of the Gravity Drainage District No. 3 assets and liabilities, with the difference between the two reported as net assets. Over time, increases and decreases in net assets may serve as a useful indicator of whether the financial position of the Gravity Drainage District No. 3 is improving or deteriorating.

The *Statement of Activities* presents the current year's revenues and expenses and other information showing how the Gravity Drainage District No. 3 net assets changed during the year. The change in net assets is reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The government-wide financial statements are presented on pages 10 - 13 of this report.

Fund Financial Statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Gravity Drainage District No. 3, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Gravity Drainage District No. 3 are categorized as governmental funds.

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as, on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Gravity Drainage District No. 3 maintains one individual governmental fund - the general fund. The Gravity Drainage District No. 3 adopts an annual appropriated budget for the general fund, and a budgetary comparison schedule is provided for the general fund to demonstrate compliance with this budget.

The governmental fund financial statements are presented on pages 10 - 13 of this report.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Required Supplemental Information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the Gravity Drainage District No. 3 budget presentation. The general fund's budgetary comparison schedule is included as "required supplementary information." Required supplementary information is information that the accounting rules strongly suggest be presented within the Gravity Drainage District No. 3 financial report. This schedule demonstrates compliance with the Gravity Drainage District No. 3 adopted and final revised budget.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The Gravity Drainage District No. 3 implemented the new financial reporting model used in this report beginning with the calendar year ended December 31, 2004. Over time, as we accumulate year-to-year financial information on a consistent basis, changes in net assets may be observed and used to discuss the changing financial position of the Gravity Drainage District No. 3 as a whole.

The Gravity Drainage District No. 3 net assets at December 31, are summarized as follows:

Summary of Net Assets

	Governmental Activities <u>2006</u>	Governmental Activities <u>2005</u>	Governmental Activities <u>2004</u>
Assets:			
Current and Other Assets	\$ 663,553	\$ 1,026,361	\$ 1,225,933
Total Assets	663,553	1,026,361	1,225,933
Liabilities:			
Current and Other Liabilities	57,136	239,168	10,545
Total Liabilities	57,136	239,168	10,545
Net Assets:			
Invested in capital assets	49,896	42,426	-
Unrestricted	556,521	744,767	1,215,388
Total Net Assets	<u>\$ 606,417</u>	<u>\$ 787,193</u>	<u>\$ 1,215,388</u>

The largest components of Gravity Drainage District No. 3's total assets are: (1) cash and investments of \$340,240 or 51%. Of Gravity Drainage District No. 3's total liabilities, the only component is accounts payable of \$57,136.

As noted earlier, net assets (total assets less total liabilities) may serve over time as a useful indicator of a government's financial position. At the close of the most recent fiscal year, the Gravity Drainage District No. 3 net assets totaled \$606,417. The unrestricted net assets (\$556,521) of the Gravity Drainage District No. 3 are available for future use. The unrestricted net assets exceed 100% of the total operating expenses for the fiscal year ended December 31, 2005. This measure is an estimate of how long the Gravity Drainage District No. 3 might be expected to operate on its current resources.

The Gravity Drainage District No. 3 change in net assets for the years ended December 31, is summarized as follows:

Summary of Changes in Net Assets

	Governmental Activities <u>2006</u>	Governmental Activities <u>2005</u>	Governmental Activities <u>2004</u>
Revenues:			
Ad Valorem	\$ 156,859	\$ 247,926	\$ 215,292
FEMA	245,819	31,480	-
Other	9,869	2,117	2,276
Interest	25,890	21,910	7,312
Total Revenues	<u>438,437</u>	<u>303,433</u>	<u>224,880</u>
Expenses:			
Personal Services	40,120	47,120	29,880
Operating Services	559,711	671,592	100,679
Materials and Supplies	12,043	9,651	9,595
Depreciation	7,339	3,265	-
Total Expenses	<u>619,213</u>	<u>731,628</u>	<u>140,154</u>
Change in Net Assets	<u>\$ (180,776)</u>	<u>\$ (428,195)</u>	<u>\$ 84,726</u>

Governmental activities decreased net assets by \$180,776 for the year ended December 31, 2006.

Key elements of the analysis of government-wide revenues and expenses reflect the following:

- The Gravity Drainage District No. 3 is heavily dependent on ad valorem taxes to support its operations. During 2006 a substantial portion of revenues came from FEMA as a result of reimbursements for hurricane cost.

- Interest totaled approximately 5.5% of the Gravity Drainage District No. 3 current year resources.
- Operating expense which includes hurricane repair comprise 91%.
- Personal services comprise 8.5% of resources.

FINANCIAL ANALYSIS OF GOVERNMENTAL FUNDS

The Gravity Drainage District No. 3 uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The financial statements of the Gravity Drainage District No. 3 present its General Fund. The General Fund is the Gravity Drainage District No. 3 operating fund and the source of day-to-day service delivery. As discussed, the General Fund is useful in assessing the resources available at the end of the year in comparison with upcoming requirements.

At December 31, 2006, the Gravity Drainage District No. 3 General Fund balance (total assets less total liabilities) totaled \$540,948, all of which was unreserved. The Gravity Drainage District No. 3 unreserved fund balance decreased by \$203,819 in 2006.

Total revenues reflect a \$135,004 increase in 2006 as compared to 2005 due primarily to an increase in grant revenues from FEMA for hurricane related repairs.

The most significant increase in expenses occurred in operating and maintenance expense. The total increase in these expenses from 2004 to 2005 was \$539,433 and the increase from 2004 to 2006 was \$459,032. Cameron Parish was devastated by Hurricane Rita and has been declared a major disaster area by The President of the United States. Thus far, \$277,299 of these expenditures has been reimbursed by FEMA.

CAPITAL ASSETS AND LONG-TERM OBLIGATIONS

Capital Assets

At the end of December 31, the Gravity Drainage District No. 3 had invested in equipment. The capital assets are summarized below:

	Governmental Activities 2006	Governmental Activities 2005	Governmental Activities 2004
Depreciable Assets:			
Equipment	\$ 88,272	\$ 57,891	\$ 12,188
Totals	88,272	57,891	12,188
Less Accumulated Depreciation	(22,804)	(15,465)	(12,188)
Book Value-Depreciable Assets	\$ 65,468	\$ 42,426	\$ -

Long-Term Obligations

The Gravity Drainage District No. 3 had no long-term obligations at December 31, 2006.

ECONOMIC FACTORS AND FUTURE OUTLOOK

Gravity Drainage District No. 3 financial status was impacted greatly in 2005 and 2006 by Hurricane Rita. The District, however, at this time anticipates a change in revenues and expenditures for fiscal year 2007. There will be a significant decline in operating expenditures and due to hurricane recovery in the area, Ad Valorem tax revenues are expected to increase.

CONTACTING THE GRAVITY DRAINAGE DISTRICT NO. 3 FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the Gravity Drainage District No. 3 finances and to show its accountability for the money it receives. If you have questions about this report or need additional financial information, contact Paula Pool, at the Gravity Drainage District No. 3 Office, Post Office Box 1067, Cameron, Louisiana 70631 or call (337) 478-9308.

Gravity Drainage District No. 3 of Cameron Parish
Cameron, Louisiana

STATEMENTS OF NET ASSETS

December 31, 2006

	General Fund	Adjustments	Statement of Net Assets
<u>ASSETS</u>			
Current Assets			
Cash and cash equivalents	\$ 340,239.71	\$ -	\$ 340,239.71
Accounts Receivable	<u>257,844.84</u>	<u>-</u>	<u>257,844.84</u>
Total Current Assets	598,084.55	-	598,084.55
Noncurrent assets			
Capital assets, net of accumulated depreciation	<u>-</u>	<u>65,468.83</u>	<u>65,468.83</u>
TOTAL ASSETS	<u>\$ 598,084.55</u>	65,468.83	663,553.38
<u>LIABILITIES</u>			
Current Liabilities			
Accounts payable	<u>57,136.24</u>	<u>-</u>	<u>57,136.24</u>
Total Current Liabilities	<u>57,136.24</u>	<u>-</u>	<u>57,136.24</u>
TOTAL LIABILITIES	57,136.24	-	57,136.24
<u>FUND BALANCE</u>			
Unreserved	<u>540,948.31</u>	(540,948.31)	-
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 598,084.55</u>		
<u>NET ASSETS</u>			
Invested in capital assets		49,895.71	49,895.71
Unrestricted		<u>556,521.43</u>	<u>556,521.43</u>
		<u>\$ 65,468.83</u>	<u>\$ 606,417.14</u>

See notes to the financial statements

GRAVITY DRAINAGE DISTRICT NO. 3 OF CAMERON PARISH
Cameron, Louisiana

RECONCILIATION OF GOVERNMENTAL FUND BALANCE TO NET ASSETS
December 31, 2006

Total Governmental Fund Balances \$ 540,948.31

Amounts reported for governmental activities in the statement of net
assets are different because:

Capital assets used in the governmental activities are not financial
resources and therefore are not reported in the funds. These assets
consist of:

Vehicles	24,574.00	
Equipment	63,698.74	
Accumulated depreciation	<u>(22,803.91)</u>	
Capital assets, net of accumulated depreciation	65,468.83	<u>65,468.83</u>

Net assets of governmental activities \$ 606,417.14

Gravity Drainage District No. 3 of Cameron Parish
Cameron, Louisiana

STATEMENT OF ACTIVITIES

For the year ended December 31, 2006

	General Fund	Adjustments	Statement of Activities
EXPENDITURES/EXPENSES			
Personal services	\$ 40,120.00	\$ -	\$ 40,120.00
Operating services	554,079.15	-	554,079.15
Materials and supplies	42,424.55	(30,381.70)	12,042.85
Pension expense	5,632.08	-	5,632.08
Depreciation	-	7,339.29	7,339.29
Total expenditures/expenses	<u>642,255.78</u>	<u>(23,042.41)</u>	<u>619,213.37</u>
GENERAL REVENUES			
Ad valorem taxes	156,858.54	-	156,858.54
Federal grant	245,819.08	-	245,819.08
Other income	9,869.00	-	9,869.00
Interest income	25,890.12	-	25,890.12
Total general revenues	<u>438,436.74</u>	<u>-</u>	<u>438,436.74</u>
CHANGE IN NET ASSETS	(203,819.04)	(23,042.41)	(180,776.63)
FUND BALANCE/ NET ASSETS - BEGINNING OF YEAR	<u>744,767.35</u>	<u>42,426.42</u>	<u>787,193.77</u>
FUND BALANCE/NET ASSETS - END OF YEAR	<u>\$ 540,948.31</u>	<u>\$ 19,384.01</u>	<u>\$ 606,417.14</u>

See notes to the financial statements

GRAVITY DRAINAGE DISTRICT NO. 3 OF CAMERON PARISH
Cameron, Louisiana

RECONCILIATION OF CHANGE IN GOVERNMENTAL FUND BALANCE
TO THE STATEMENT OF ACTIVITIES

December 31, 2006

Net change in fund balances - total governmental funds \$ (203,819.04)

Amounts reported for governmental activities in the statement of activities
are different because:

Governmental funds report operating service, materials and supplies as
expenditures. However, in the statement of activities, assets with an
individual cost of \$1,000 or more are capitalized and the cost is allocated
over their estimated lives and reported as depreciation expense.

For the current period these amounts are:

Materials and supplies	30,381.70	
Depreciation expense	<u>(7,339.29)</u>	
Excess of capital outlay over depreciation expense		<u>23,042.41</u>

Change in net assets of governmental funds \$ (180,776.63)

GRAVITY DRAINAGE DISTRICT NO. 3 OF CAMERON PARISH
Cameron, Louisiana

Notes to the Financial Statements
December 31, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Gravity Drainage District No. 3 of Cameron Parish was created on April 6, 1931, as a political subdivision of the State of Louisiana under the provisions of Louisiana Revised Statutes 38:1751-1802, and was established for the purpose of opening and maintaining all natural drains in the district where drainage is accomplished using the natural force of gravity. The district is governed by a board of 5 commissioners who are appointed by the Cameron Parish Police Jury.

The accompanying basic financial statements of the District have been prepared in conformity with governmental accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The accompanying basic financial statements have been prepared in conformity with GASB Statement 34, *Basic Financial Statements-and Management's Discussion and Analysis—for State and Local Governments*, issued in June 1999.

Reporting Entity

As the governing authority of the parish, for reporting purposes, the Cameron Parish Police Jury is the financial reporting entity for Cameron Parish. The financial reporting entity consists of (a) the primary government (police jury), (b) organizations for which the primary government is financially accountable, and (c) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

Governmental Accounting Standards Board (GASB) Statement No. 14 established criteria for determining which component units should be considered part of the Cameron Parish Police Jury for financial reporting purposes. The basic criterion for including a potential component unit within the reporting entity is financial accountability. The GASB has set forth criteria to be considered to be considered in determining financial accountability. This criteria includes:

Appointing a voting majority of an organization's governing body and the ability of the police jury to impose its will on that organization and/or:

- a. The potential for the organization to provide specific financial benefits to or impose specific financial burdens on the police jury.
- b. Organizations for which the police jury does not appoint a voting majority but are fiscally dependent on the police jury.
- c. Organizations for which the reporting entity financial statements would be misleading if the data of the organization is not included because of the nature of significance of the relationship.

GRAVITY DRAINAGE DISTRICT NO. 3 OF CAMERON PARISH
Cameron, Louisiana

Notes to the Financial Statements
December 31, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Because the police jury appoints all board members of the district and can impose its will on the district, the district was determined to be a component unit of the Cameron Parish Police Jury, the financial reporting entity. The accompanying financial statements present information only on the funds maintained by the district and do not present information on the police jury, the general government services provided by that governmental unit, or the other governmental units that comprise the financial reporting entity.

Basic Financial Statements – Fund Financial Statements

The financial transactions of the District are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that compromise its assets, liabilities, fund equity, revenues and expenditures. Government resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which the spending activities are controlled. The district's current operations require the use of only one governmental fund type. The governmental fund type is described as follows:

General Fund - The General Fund is the general operating fund of the district and is used to account for all financial activities not required to be accounted for in other funds.

Basic Financial Statements – Government-Wide Statements

The District's basic financial statements include both government-wide (reporting the District as a whole) and fund financial statements (reporting the District's funds). In the government-wide Statement of Net Assets, governmental activities are presented on a consolidated basis and are reported on a full accrual, economic resource basis, which recognizes all long-term debt and obligations. The District's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. The government-wide Statement of Activities reports revenues and expenses on a full accrual, economic resource basis. The Statement of Activities recognizes depreciation expense.

This government-wide focus is more on the sustainability of the District as an entity and the change in the District's assets resulting from current year's activities.

Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

GRAVITY DRAINAGE DISTRICT NO. 3 OF CAMERON PARISH
Cameron, Louisiana

Notes to the Financial Statements
December 31, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Accrual

The governmental activities in the government-wide financial statements and the governmental fund financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

Capital Assets and Long-term Debt

The accounting and reporting treatment applied to capital assets associated with a fund are determined by their measurement focus. General capital assets are recorded as expenditures in the governmental funds and capitalized in the government-wide financial statements. All purchased fixed assets are valued at historical cost, or where historical cost is not available, estimated historical cost based on replacement cost. The minimum capitalization threshold is any individual item with a total cost greater than \$1,000.

Depreciation of capital assets is computed and recorded by the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows:

<u>Description</u>	<u>Estimated Lives</u>
Machinery and equipment	5 – 7 years

The district has no long-term debt at December 31, 2006.

Budget Practices

A preliminary budget for the ensuing year is prepared for the board of commissioners and made available to the public. The budget is then adopted during the regular December meeting. The proposed budget for the General Fund is prepared on the cash basis of accounting. The budget is established and controlled by the board of commissioners at the object level of expenditures. Appropriations lapse at year-end and must be appropriated for the following year to be expended. All changes in the budget must be approved by the board of commissioners.

Formal budgetary integration is employed as a management control device during the year. Budgeted amounts included in the accompanying financial statements include the original adopted budget and all subsequent amendments.

Use of Estimates

The financial statements are prepared in conformity with generally accepted accounting principles and, accordingly, include amounts that are based on management's best estimates and judgments. Actual results could differ from these estimates.

GRAVITY DRAINAGE DISTRICT NO. 3 OF CAMERON PARISH
Cameron, Louisiana

Notes to the Financial Statements
December 31, 2006

2. CASH AND CASH EQUIVALENTS

Cash of the District is classified into three categories to give an indication of the level of risk assumed at the year end.

Category 1: includes deposits insured or collateralized with securities held by the District or its agent in the name of the District.

Category 2: includes deposits collateralized with securities held by the pledging financial institution's trust department or agent in the District's name.

Category 3: includes insured and unregistered deposits with the securities held by the pledging financial institution, or by its trust department or agent, but not in the District's name.

Cash and certificates of deposit as of December 31, 2006 were all classified as category 3. The balance as of December 31, 2006 consisted of the following:

	<u>Bank Balance</u>	<u>Carrying Amount</u>
Demand deposits	\$ 52,725	\$ 40,240
Time deposits	300,000	300,000

Under state law, the district may deposit funds within a fiscal agent bank organized under the laws of the State of Louisiana, the laws of any other state in the union, or the laws of the United States. The district may invest in certificates and time deposits of state banks organized under Louisiana law and national banks having principal offices in Louisiana. These deposits are stated at cost, which approximate market. Under state law, these deposits, or the resulting bank balances, must be secured by federal deposit insurance or the pledge of securities owned by the fiscal agent bank.

Because the pledged securities are held by a custodial bank in the name of the fiscal agent bank rather than the name of the district, they are considered uncollateralized (Category 3) under the provisions of GASB Codification C20.106; however, Louisiana Revised Statute 39:1229 imposes a statutory requirement on the custodial bank to advertise and sell the pledged securities within 10 days of being notified by the district that the fiscal agent has failed to pay deposited funds upon demand.

GRAVITY DRAINAGE DISTRICT NO. 3 OF CAMERON PARISH
Cameron, Louisiana

Notes to the Financial Statements
December 31, 2006

3. CAPITAL ASSETS

Capital assets consist of the following

	12/31/2005	Additions	Disposals	12/31/2006
Vehicles	\$ 12,200	\$ 12,374	\$ -	\$ 24,574
Equipment	<u>45,691</u>	<u>18,008</u>	<u>-</u>	<u>63,699</u>
	57,891	30,382	-	88,273
Accumulated Depreciation	<u>(15,465)</u>	<u>(7,339)</u>	<u>-</u>	<u>(22,804)</u>
Total	<u>\$ 42,426</u>	<u>\$ 23,043</u>	<u>\$ -</u>	<u>\$ 65,469</u>

4. AD VALOREM TAXES

The district has an authorized tax millage of 5.00 mills for general maintenance and operation of the district. The tax expires with the 2008 tax roll. For the year ended December 31, 2006, taxes were levied on taxable assessed valuations of \$35,275,219 at a millage of 5.00.

Property tax millage rates are adopted in July for the calendar year in which taxes are levied and recorded. All taxes are due and collectible when the assessment rolls are filed on or before November 15th of the current year, and become delinquent after December 31st. Property taxes not paid by the end of February are subject to lien.

5. RISK MANAGEMENT

The district is exposed to various risk of loss related to torts; thefts of, damage to, and destruction of assets and errors and omissions. To handle such risk of loss, the district maintains surety bond coverage, a general liability policy, and an errors and omissions policy, and automobile liability. No claims were paid on any of the policies during the past three years which exceeded the policies' coverage amount.

6. VACATION PAY/SICK LEAVE AND PENSION PLAN

The district has no employees; therefore, the district does not have a formal policy on vacation and sick leave and does not contribute to a pension plan.

7. LITIGATION AND CLAIMS

The district is not involved in any litigation at December 31, 2006, nor is it aware of any unasserted claims.

GRAVITY DRAINAGE DISTRICT NO. 3 OF CAMERON PARISH
Cameron, Louisiana

Notes to the Financial Statements
December 31, 2006

8. HURRICANE RITA

In September 2005, Cameron Parish was devastated by Hurricane Rita. At the time of the hurricane, the District had no fixed assets, except a vehicle, so assets were not impaired, however, the costs of debris removal has had a significant impact on the expenditures for operations. Since the hurricane, the district has received \$277,298 in reimbursements from FEMA. Although additional documentation has been submitted for reimbursement, the District is uncertain how much more will be received.

Required Supplemental Information (Part II)

Gravity Drainage District No. 3 of Cameron Parish
Cameron, Louisiana

Budgetary Comparison Schedule - Budgetary Basis

For the year ended December 31, 2006

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
RECEIPTS				
Ad valorem taxes, net	\$ 230,000.00	\$ 230,000.00	\$ 241,433.04	\$ 11,433.04
Federal grants	-	-	190,420.75	190,420.75
Other income	2,300.00	2,300.00	932.83	(1,367.17)
Interest income	<u>7,000.00</u>	<u>7,000.00</u>	<u>25,890.12</u>	<u>18,890.12</u>
Total receipts	239,300.00	239,300.00	458,676.74	219,376.74
DISBURSEMENTS				
Personal services	30,000.00	40,000.00	39,520.00	(480.00)
Operating services	95,000.00	745,000.00	763,871.26	18,871.26
Materials and supplies	6,000.00	8,000.00	7,171.85	(828.15)
Pension deduction	<u>8,500.00</u>	<u>8,500.00</u>	<u>8,032.15</u>	<u>(467.85)</u>
Total disbursements	<u>139,500.00</u>	<u>801,500.00</u>	<u>818,595.26</u>	<u>17,095.26</u>
RECEIPTS OVER (UNDER) DISBURSEMENTS	99,800.00	(562,200.00)	(359,918.52)	202,281.48
BUDGETARY FUND BALANCE BEGINNING OF YEAR	<u>700,158.23</u>	<u>700,158.23</u>	<u>700,158.23</u>	-
BUDGETARY FUND BALANCE END OF YEAR	<u>\$ 799,958.23</u>	<u>\$ 137,958.23</u>	<u>\$ 340,239.71</u>	<u>\$ 202,281.48</u>

See notes to required supplementary information.

GRAVITY DRAINAGE DISTRICT NO. 3 OF CAMERON PARISH
Cameron, Louisiana

Note to Required Supplementary Information - Budgetary Reporting

For the Year Ended December 31, 2006

Receipts - Budgetary Basis	\$458,676.74
Differences - budget to GAAP	
Receipts in current year for prior year revenue	(283,716.92)
Revenues for financial statement purposes to be received in subsequent year	<u>263,476.92</u>
Total revenues as reported on statement of activities - GAAP Basis	<u>\$438,436.74</u>
Disbursements - Budgetary Basis	\$818,595.26
Differences - budget to GAAP	
Current year disbursements reported as expenses in the prior year	(239,107.80)
Expenses for financial statement purposes to be paid in subsequent year	<u>47,195.62</u>
Capital items reported on the balance sheet for financial statement purposes but as operating expenditure for budgeting	(14,809.00)
Depreciation expense	<u>7,339.29</u>
Total expenses as reported on statement of activities - GAAP Basis	<u>\$619,213.37</u>

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND INTERNAL
CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING
STANDARDS**

GRAVITY DRAINAGE DISTRICT No. 3
OF CAMERON PARISH
Cameron, Louisiana

We have audited the basic financial statements of the Gravity Drainage District No. 3 of Cameron Parish, a component unit of the Cameron Parish Police Jury, as of and for the year ended December 31, 2007 and have issued our report thereon dated December 20, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Gravity Drainage District No. 3 of Cameron Parish's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion of the effectiveness of the Gravity Drainage District No. 3 of Cameron Parish internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Gravity Drainage District No. 3 of Cameron Parish's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affect the Gravity Drainage District No. 3 of Cameron Parish's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by Gravity Drainage District No. 3 of Cameron

Parish's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

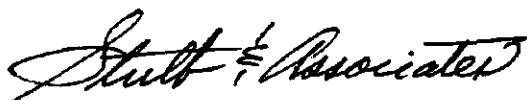
Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Gravity Drainage District No. 3 of Cameron Parish's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that is required to be reported under *Government Auditing Standards* which is described in the accompanying schedule of findings and questioned costs as items 2006-1 through 2006-7.

The Gravity Drainage District No. 3 of Cameron Parish's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Gravity Drainage District No. 3 of Cameron Parish's response and accordingly, we express no opinion on it.

This report is intended for the information of the Gravity Drainage District No. 3 of Cameron Parish, and the Louisiana Legislative Auditor. This restriction is not intended to limit the distribution of this report, which is a matter of public record.



December 20, 2007

Gravity Drainage District No. 3
Cameron, Louisiana

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I – Summary of Auditors' Results

December 31, 2006

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? ☐ yes ☒ no
- Reportable condition(s) identified that are not considered to be material weaknesses? ☒ yes ☐ no
- Noncompliance material to financial statements noted? ☐ yes ☒ no

Section II – Financial Statement Findings

Current Audit

2006-1

Criteria: The district's tax proposition requires that expenditures by the District should be for the purpose of operating and maintaining the District's drainage systems within the District.

Condition: It appears that the district expended funds for work outside the district.

Context: During our examination we examined invoices supporting 82% of the total payments made by the district during 2006. We also reviewed all invoices submitted for FEMA reimbursement. In reviewing the invoices, we noted the following expenditures for work outside the district:

<u>Location</u>	<u>Amount</u>
Gravity Drainage District #8	
Big Pasture Road	\$260,003.01
Gravity Drainage District #4	
Creole	1,600.00
Oak Grove/Creole	5,257.50
North Creole	1,344.00
Oak Grove/Kings Bayou	1,390.00
	<u>\$269,594.51</u>

Gravity Drainage District No. 3
Cameron, Louisiana
Section II – Financial Statement Findings (continued)

Effect: The District provided services at the District's expense for other districts.

Recommendation: The District should work in conjunction with the parish and other districts to identify services to be provided and enter into intergovernmental agreements to outline each participant's responsibility.

Response: The work in these districts was authorized by EOC, FEMA, LA DOTD, and Cameron Police Jury members during meetings at EOC headquarters in Cameron. The verbal agreements and authorizations were to be documented in writing by use of Interagency or Cooperative Endeavor agreements. Repayment of expenditures would be from any source including FEMA, Police Jury general fund or Ad Valorem taxes in the district. Direct FEMA reimbursement would go directly to Gravity Drainage District #3 and the balance owed by the district. A formal payment plan with District #8 has not been signed at this time. District #4 expenses were 100% reimbursed by FEMA with payments going directly to District #3.

2006-2

Criteria: The District's tax proposition requires that expenditures by the District should be for the purpose of operating and maintaining the District's drainage systems within the District.

Condition: It appears that the District expended funds for work not in accordance with the District's tax proposition.

Context: During our examination we examined all invoices paid to a major vendor. Since Hurricane Rita, the District has paid consulting fees in excess of \$200,000 to this vendor. The invoices were not specific as to the work performed or the project it related to. In addition to these fees, this vendor was paid \$55,288 in surcharges (20%) for directly paying invoices to contractors for hurricane relief work.

Effect: The District paid a vendor a substantial amount with no specific detail as to what work was done. The District also paid surcharges that appear to be unnecessary for the operation and maintenance of the District's drainage systems.

Recommendation: The consulting invoices should specifically describe the work performed to verify that it relates to the operation and maintenance of the District's drainage systems. As a sound business practice, surcharges paid for the time value of money should be based on an annual interest rate.

Gravity Drainage District No. 3
Cameron, Louisiana
Section II – Financial Statement Findings (continued)

Response: The invoices for consulting were approved without detail because the board members were involved on a day to day basis and were aware of the services performed. The 20% surcharge was standard FEMA practice and the vendor entered into a contract with the District to allow the surcharge.

2006-3

Criteria: A substantial portion of hurricane related repairs are reimbursable by Federal Emergency Management Agency (FEMA) - Hurricane Rita Recovery Program.

Condition: The District's internal control failed to identify all reimbursable expenditures.

Context: The District's hurricane related expenditures appear to be in excess of \$1,000,000. According to project worksheets submitted, over \$700,000 is eligible for reimbursement, however only \$277,298.75 has been paid thus far. It was also noted that hurricane related expenditures in excess of \$200,000 were not reported on project worksheets.

Effect: The District is at risk of losing a significant portion of federal funding. It is unknown at this time how much additional funding will be received from FEMA.

Recommendation: When participating in a grant program, the District should obtain a clear understanding as to the regulations and requirements of the grant. Policies and procedures should be put in place to insure grant compliance. Procedures should provide effective controls to allow the District to maximize funding available through the grant program.

Response: The Parish removed the District from the FEMA reimbursement process and at this time the status of reimbursements is unknown.

2006-4

Criteria: According to Louisiana RS 38:2212, all public work over \$100,000 including labor and materials by a public entity should be advertised and let by contract to the lowest bidder who had bid according to the contract, plans, and specifications as advertised. Louisiana Legislative Auditor recommends the entity solicit at least 3 bids for any project in excess of \$25,000.

Condition: The District was not in compliance with the Public Bid Law.

Gravity Drainage District No. 3
Cameron, Louisiana
Section II – Financial Statement Findings (continued)

Context: During our examination we selected all payments in excess of \$25,000 to verify compliance with the public bid law. As a result of our testwork, we noted no evidence of advertised bid or bid solicitation, where applicable, for the following payments:

<u>Date</u>	<u>Amount</u>
1/17/06	\$170,262.18
1/30/06	42,352.62
2/22/06	35,157.00
8/15/06	135,301.30
11/30/06	94,977.74

Effect: Funds in the amount of \$478,050.84 were spent without seeking competitive bids.

Recommendation: In procuring contracts, materials, and supplies, the District should adhere to the Public Bid Laws.

Response: In some cases bids were obtained but not documented, otherwise work was considered emergency work and exempt from the public bid laws.

2006-5

Criteria: The Local Government Budget Act requires that the District submit and make available to the public at least 15 days prior to the beginning of the budget year.

Condition: The District did not comply with the Budget Act. A budget was not submitted prior to the beginning of the budget year. In November, 2006, an amended budget was presented to reflect actual expenditures by an increase of \$662,000 over the original budgeted amount.

Effect: A substantial amount of expenditures for the year were not in compliance with the original budget.

Recommendation: The District should prepare a budget prior to year end and monitor the budget on a monthly basis. Any significant variances should be addressed and action should be taken as to whether an amended budget is necessary.

Response: The District plans to prepare a 2008 budget and monitor it on a monthly basis.

Gravity Drainage District No. 3
Cameron, Louisiana
Section II – Financial Statement Findings (continued)

2006- 6

Criteria: An adequate system of internal control should allow the District to initiate, authorize, record, process and report financial data reliably in accordance with generally accepted accounting principles.

Condition: The District presents disbursements monthly for approval by the board. The District's internal controls over financial reporting do not provide cumulative financial data on a monthly basis in accordance with generally accepted accounting principles.

Effect: The District is not able to monitor costs of projects or payments to vendors. As a result, duplicate payments occur as well as expenditures in excess of originally budgeted amounts.

Recommendation: The District should purchase accounting software for recording all transactions in accordance with generally accepted accounting principles. On a monthly basis, a financial statement should be presented to the board.

Response: The District has contacted a consultant to assist in implementing an accounting system and hopes to have it in place sometime in 2008.

2006- 7

Criteria: Under Louisiana Statue, the District is required to have an annual audit of its financial statements prepared in accordance with generally accepted accounting principles and to complete the audit and file it with the Legislative Auditor of the State of Louisiana by June 30th of each year.

Condition: The District did not meet the deadline for reporting to the State of Louisiana.

Effect: The District did not comply with state statute.

Recommendation: The necessary procedures should be taken to have all the necessary information available to begin the audit process as soon after year end as possible.

Response: Although the audit was submitted subsequent to June 30th, it was granted an extension through December 31st. In the future, the District plans to have the necessary accounting complete as soon after year end as possible.

Gravity Drainage District No. 3
Cameron, Louisiana
Summary Schedule of Prior Audit Findings

Prior Audit

Budget not amended by Gravity Drainage District No. 3 of Cameron Parish

The District did amend the budget prior to year end, but the budget was not monitored. Due to the unexpected expenditures as a result of Hurricane Rita, it was difficult for the District to anticipate and budget expenditures. As stated in 2006-5, the district plans to monitor the 2008 budget on a monthly basis.

Gravity Drainage District No. 3
Cameron, Louisiana

Schedule of Per Diem Paid to Board Members
For the Year Ended December 31, 2006

PER DIEM PAID COMMISSIONERS

The schedule of per diem paid commissioners was prepared in compliance with House Concurrent Resolution No. 54 of the 1979 Session of the Louisiana Legislature. In accordance with Louisiana Revised Statute 38:1766, board members receive \$60 per diem for each board meeting they attend.

<u>Recipient</u>	<u>Amount</u>
Scott Henry	\$ 660
Joe Dupont	540
Edward Racca, Jr.	720
Coy Mudd	300
Mike Johnson	<u>600</u>
 TOTAL	 \$ <u>2,820</u>